



After Three Above-Consensus Prints, IGP-M Once Again Comes In Below Consensus

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- October's IGP-M came in at 0.50% MoM, in line with our expectation (0.47%) and below market consensus (0.63%). After three above-consensus prints in a row, the IGP once again posted a downside surprise relative to consensus.
- Twelve-month inflation eased to -4.57% from -5.97%. The headline trend increased to 6.1% 3MMA-saar (from 1.5%).
- IPA-Agro fell 0.27% MoM and 17.0% YoY, with the trend easing to -13.6% 3MMA-saar (from -15.7% previously).
- IPA-Industrial rose 0.91% MoM, posting deflation of -3.8 YoY, with the trend increasing to +14.9% 3MMA-saar (from +7.1% previously).
- IPA-industrial core gauge fell 0.05% MoM and 1.8% YoY, while its trend eased to -1.1% 3MMA-saar (from -1.7% previously). This core measure returned to negative territory (i.e., deceleration) after being positive in the last two IGP prints.
- The IGP-M came in below consensus, reversing some of the signs of acceleration seen in the previous prints. FX-related products in IPA-Industrial decelerated, core IPA-Industrial returned to negative territory, and IPA-Agro continues to indicate a benign inflation outlook for food-at-home.
- Our IGP-M tracking for 2023 is at -3.5% (from -3.4% in our previous forecast), with upside risks (smaller deflation).

October's IGP-M came in at 0.50% MoM, in line with our expectation (0.47%) and below market consensus (0.63%). After three above-consensus prints in a row, the IGP posted a downside surprise relative to consensus. Of the past 55 IGP prints, 42 (or 76.4%) have come in below or equal to expectations. Twelve-month inflation eased to -4.57% from -5.97%. The headline trend increased to 6.1% 3MMA-saar (from 1.5%).

IPA-Agro fell 0.27% MoM and 17.0% YoY, with the trend easing to -13.6% 3MMA-saar (from -15.7% previously). The monthly deceleration was driven by grains (-1.3%) and *in natura* products (-2.1%). In grains, soybeans (-2.4%), manioc (-4.8%), and wheat (-10.9%) were the main contributors to the deceleration, whereas sugar cane (+2.6%), corn (+1.0%) and rice (+3.9%) offset the downward movement. Looking ahead, we expect a stable domestic outlook for grain prices. In the short term, risks are the impact of the El Niño phenomenon on global weather and on rainfall for the next crop season, and the war in Ukraine. For livestock (+0.4%), the rise in cattle (+7.0%) more than offset the fall in milk (-6.7%) and eggs (-3.1%). Nevertheless, for cattle, we maintain our call that current conditions in Brazil's cattle cycle (in which supplies are ample) will mean lower prices in 2023.

IPA-Industrial rose 0.91% MoM, posting deflation of -3.8 YoY, with the trend increasing to +14.9% 3MMA-saar (from +7.1% previously). Prices of all the components increased in October, which led to the positive monthly variation in IPA-Industrial. Mining (+4.3%) increased on the heels of a rise in iron ore prices (+4.9%), after a new



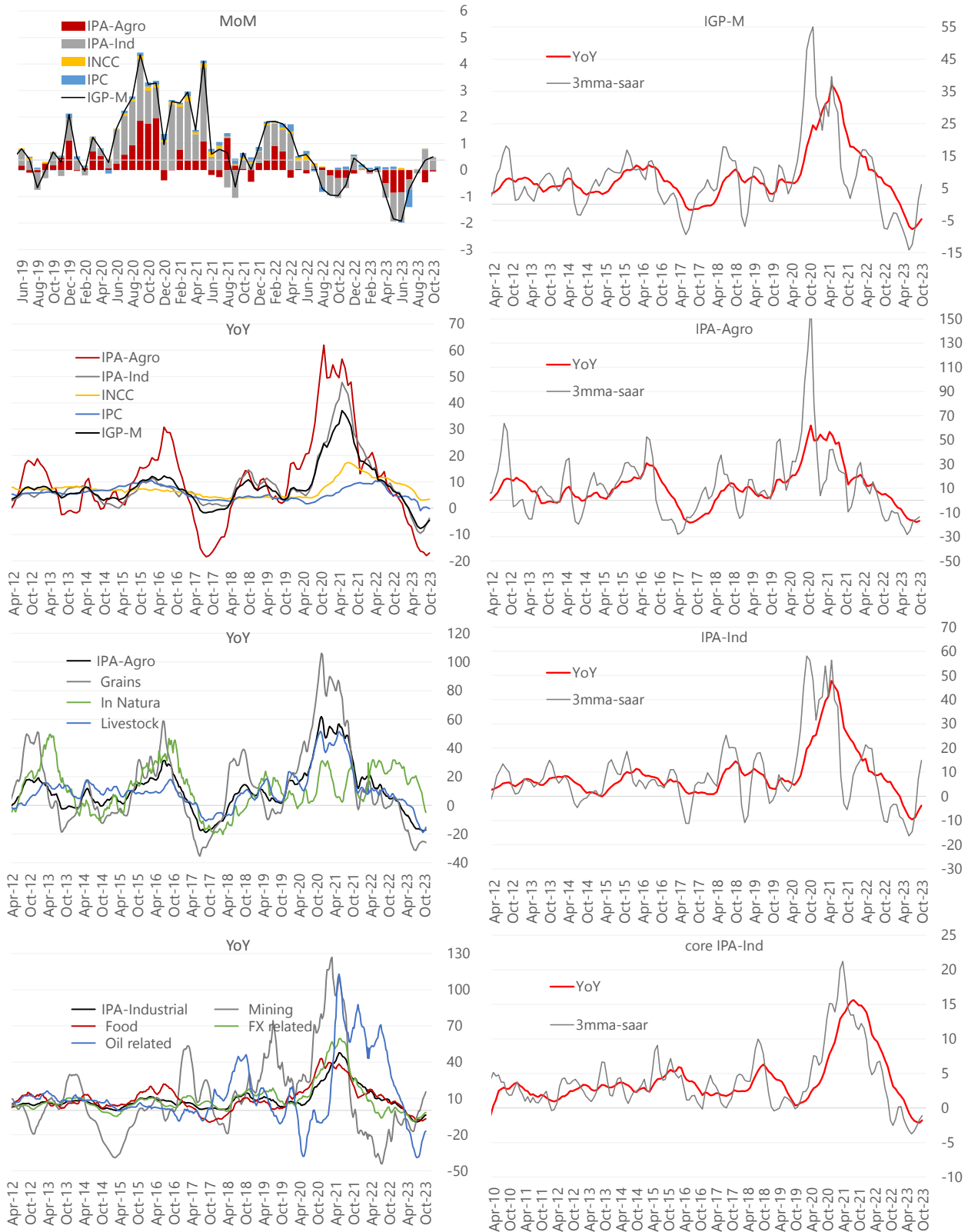
batch of stimulus and the positive seasonality in the construction sector in China. Nevertheless, our view is that these measures by the Chinese government might not be enough, which means less support for metals prices ahead. Oil-related products (+2.4%) were driven by jet fuel (+19.6%), and we expect them to continue on an upward trend after the latest fuel price adjustment at the refinery level. As of now, Brent oil prices are slightly above our forecast of USD85/bbl for YE2023, so we do not assume any other price adjustment in fuels ahead. FX-related products (+1.0%) eased as the BRL appreciated compared to early October. For other items, we highlight the rise in industrialized food (+1.1%) and chemical products (+0.5%) and the fall in basic metallurgy (-0.8%).

IPA-industrial core gauge fell 0.05% MoM and 1.8% YoY, while its trend eased to -1.1% 3MMA-saar (from -1.7% previously). This core measure returned to negative territory after the past two IGP prints. This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it could mean that the latter is near its lower bound. We expect that durable goods inflation in IPCA will continue on a downward trend in the short term.

The IGP-M came in below consensus, reversing some of the signs of acceleration seen in the previous prints. FX-related products in IPA-Industrial decelerated, core IPA-Industrial returned to negative territory, and IPA-Agro continues to indicate a benign inflation outlook for food-at-home. However, for the next prints, the latest fuel adjustment at the refinery level could start to kick in and sustain the IPA-Industrial, in our view. Our IGP-M tracking for 2023 is at -3.5% (from -3.4% previously), with upside risks (smaller deflation).



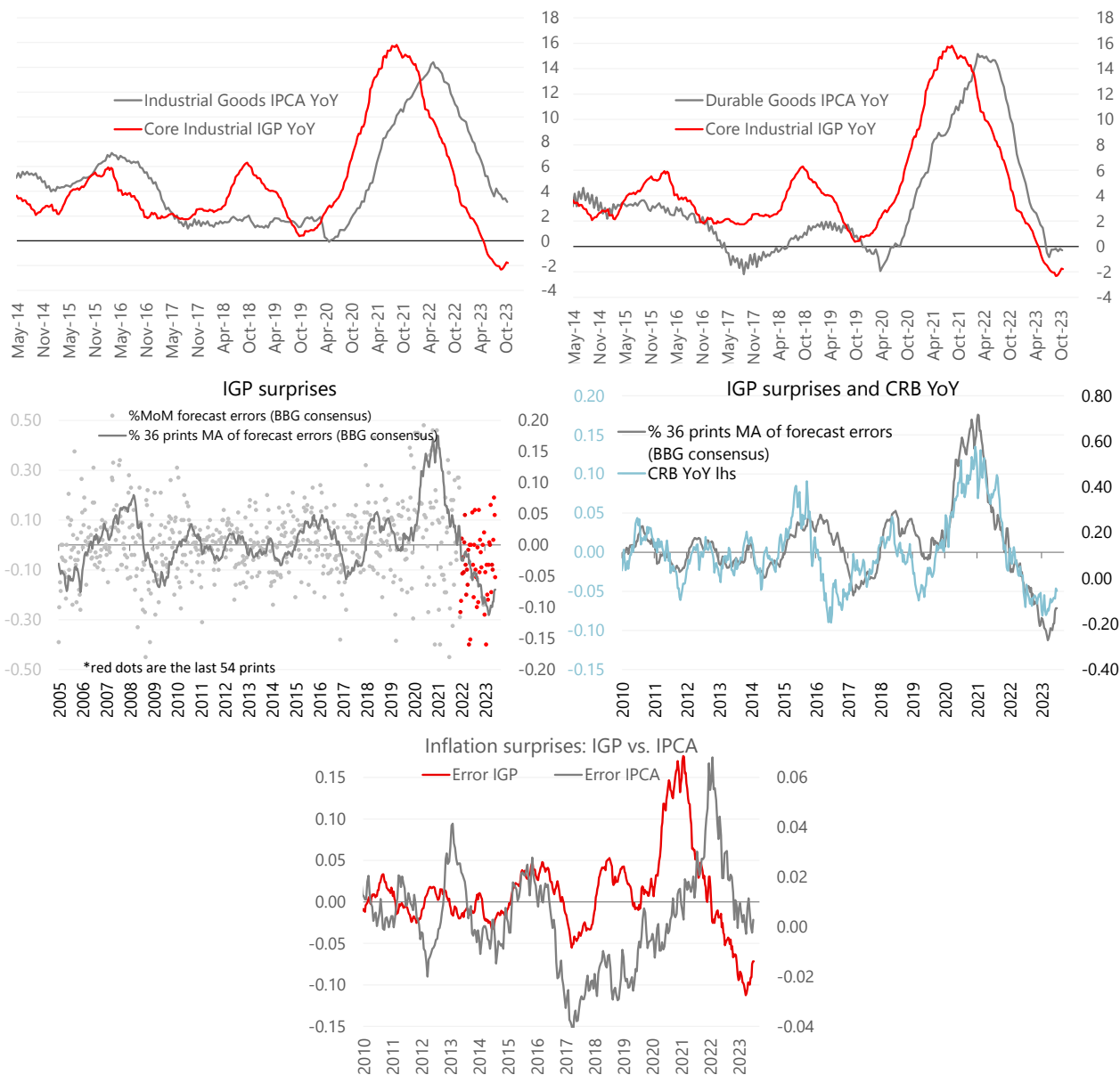
Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



Figure 2. IGP-M Surprises, Groups and Qualitative Measures



Sources for all charts: FGV, IBGE and Santander.



Figure 3. IGP-M, Groups and Qualitative Measures

IGP chained %MoM	Aug-23			Sep-23			Oct-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	-0.13	-0.14	0.05	0.18	0.37	0.45	0.52	0.50	
IPA	-0.20	-0.17	0.10	0.23	0.41	0.51	0.61	0.60	
IPA-Agro	0.16	0.02	-0.56	-1.58	-2.53	-2.24	-1.41	-0.27	
Grains	3.88	3.74	2.35	1.61	0.82	0.36	-0.76	-1.35	
In Natura	-3.34	-2.94	-1.06	-1.41	-3.38	-4.83	-4.72	-2.13	
Livestock	-0.80	-2.31	-3.96	-6.11	-7.38	-5.70	-3.13	0.38	
IPA-Industrial	-0.33	-0.24	0.35	0.89	1.49	1.52	1.34	0.91	
Mining	1.12	0.01	0.24	2.41	5.47	6.44	6.24	4.26	
Food	-0.20	-0.47	-0.55	-1.20	-0.88	-0.34	0.39	1.15	
FX related	-0.37	-0.65	-0.84	-0.15	1.04	1.66	1.75	0.95	
Oil related	-0.97	1.60	8.64	12.89	12.69	8.32	4.26	2.38	
INCC	0.17	0.24	0.17	0.18	0.24	0.34	0.36	0.20	
IPC	0.00	0.04	-0.04	-0.02	0.06	0.10	0.03	-0.11	

IGP chained %YoY	Aug-23			Sep-23			Oct-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	-7.4	-7.2	-6.9	-6.4	-6.0	-5.3	-4.9	-4.6	
IPA	-11.1	-11.0	-10.8	-9.8	-9.5	-8.8	-8.0	-7.6	
IPA-Agro	-16.3	-16.7	-17.1	-17.3	-18.0	-17.9	-17.4	-17.0	
Grains	-27.1	-26.3	-25.9	-25.3	-25.2	-25.0	-25.4	-25.9	
In Natura	14.2	12.1	10.5	8.5	3.9	-0.5	-3.0	-4.9	
Livestock	-13.5	-15.6	-17.1	-17.8	-19.0	-18.5	-17.1	-15.3	
IPA-Industrial	-9.0	-8.7	-8.3	-6.8	-6.0	-5.1	-4.1	-3.8	
Mining	-0.3	-0.5	-1.9	6.0	9.3	7.3	13.1	15.4	
Food	-7.4	-7.6	-7.8	-8.5	-8.5	-7.7	-7.3	-6.9	
FX related	-6.0	-6.0	-7.0	-5.0	-3.9	-4.0	-2.1	-1.6	
Oil related	-38.4	-36.2	-30.9	-25.6	-23.7	-18.6	-17.8	-17.2	
INCC	2.8	3.1	3.2	3.0	3.2	3.5	3.4	3.4	
IPC	0.5	0.3	-2.2	0.6	0.4	-2.1	0.5	-0.2	

Sources for all charts: FGV and Santander.



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